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PUBLIC PROCUREMENT AND CORPORATE SOCIAL RESPONSIBILITY: A COMPARISON OF PRIVATE FIRMS AND U.S. DEFENSE CONTRACTORS

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ABSTRACT: This paper compares the levels of Corporate Social Responsibility (CSR) emphasis between defense contractors and private firms that receive the majority of revenues from commercial sources. Corporate websites from three major industry groups (large defense contractors, Fortune 500 companies, and highly ranked CRS firms) were examined and rated based on information regarding their emphases on health and safety, environment, diversity, human rights, philanthropy, and corporate governance. The results indicate that defense contractors place less emphasis on those CSR categories than do private firms. The findings are explained by stakeholder differences and may be attributed to the highly regulated environment of public procurement.

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INTRODUCTION

Corporate Social Responsibility (CSR; Bowen, 1953; Carroll, 1999) receives increasing attention from a variety of sources, including non-governmental organizations (NGOs), trade unions, consumers, shareholders, and scholars (Jenkins, 2005; McCrudden 2006), especially in light of troublesome cases such as Enron (accounting fraud), Nike (child labor), Shell (sinking of the Brent Spar), and British Petroleum (oil spill). CSR is now viewed as a core competency for many companies, contributing to their competitive advantage and long-term profits, leading them to value CSR on the same level as financial performance (Porter & Kramer, 2006; Davis, 1960; Hurst, 2004).

CSR expectations of a different sort apply to firms that engage in public procurement via government contracts. Because they act as agents of public officials to promote public values and to accomplish public purposes (McCrudden, 2007), these contractors have obligations beyond those of firms that operate purely in the private realm; government contractors must act responsibly on behalf of public authorities (Cohen & Eimicke, 2009). Yet, little research attention has been paid to the question of how the CSR of government contractors might differ from that of firms that derive their revenue from purely commercial and non-government sources (hereafter, *private firms*).

Purpose and Scope

This paper seeks to help fill this research gap by conducting an exploratory comparison of the CSR of firms that engage in public procurement with the CSR of private firms. By “exploratory comparison,” we mean a survey that will identify and document the important features of the CSR landscape in order to provide a useful foundation for deeper and more focused analysis of those features.

As a first step toward investigating the CSR of government contractors, we focus on that subset of contractors—defense contractors—to the U.S. federal (i.e., national) government whose CSR is arguably most different from that of private firms. Weapons

manufacturers have been characterized from a moral perspective as *socially irresponsible* (Baker, 2005). Critics argue that their products (e.g., weapons) cause human death, injury, and environmental damage. Further, because defense contractors are for-profit industries, they have incentives to sell weapons to non-state actors (e.g., revolutionary militias in other countries), thereby producing negative externalities (Byrne, 2007).

In addition to focusing on defense contractors, we focus on the discretionary facet of CSR. Carroll (1999) has proposed a framework of CSR orientations and behaviors in four domains: economic, ethical, legal, and discretionary. Some, however, see Carroll's discretionary domain as the only truly compelling domain of CSR because it entails those philanthropic attitudes and activities that a firm is free to choose to pursue. The discretionary domain reaches beyond the legal and ethical domains of CSR, which arguably represent common obligations and expectations requiring no special corporate attention (Davis, 1960; 1973), as well as the economic domain which some argue should be the sole focus of corporate attention (Friedman, 1970; Steiner, 1971). Thus, the only domain of orientations and actions upon which scholars agree is the discretionary domain; hence our focus on that domain.

Method and Organization

As an exploratory study, this paper relies upon publicly available data from corporate websites and upon existing instruments and frameworks to measure and compare CSR. It examines three groups:

- The largest defense contractors that derive at least 70% of revenues from federal government contracts.
- The highest ranked CSR companies (as ranked by Boston College Center for Corporate Citizenship).
- The largest Fortune 500 companies.

To assess and compare these firms' CSR, we used an instrument developed by the Institute for Supply Management (ISM), together with Hurst's (2004) framework for comparing CSR between European and U.S. firms. Additional assessment factors were derived from the best practices of the top CSR companies. Assessments and

comparisons were obtained in six CSR categories associated with the discretionary domain: health and safety, environment, diversity, human rights, philanthropy, and corporate governance.

The paper is organized as follows. After a brief review of CSR-related literature and policy pertaining to defense contractors, the methodology is presented in more detail. The data and analysis are then given, followed by discussion of the results and conclusions.

BACKGROUND

CSR refers to the obligations of companies to make decisions beneficial to society (Bowen, 1953) or, alternatively, the society's expectations of firms regarding their behaviors in the economic, legal, ethical, and discretionary domains of action (Carroll, 1999). Researchers typically treat CSR behaviors as factors that affect corporate profitability (see, for example, Aupperle, Carroll, & Hatfield, 1985; Berman, Wicks, Kotha, & Jones, 1999) rather than as dependent variables. Others (Campbell, 2007; Hiss, 2009) call for attention to factors, especially institutional factors (e.g., laws, rules, norms), that may shape a firm's CSR.

CSR Literature Related to Public Procurement

The effect of laws and regulations on firms is routinely noted in the business ethics literature (Goodpaster, 1991: 58; Phillips, Freeman, & Wicks, 2003: 490-491). Clearly, however, firms operate in different legal-regulatory regimes. Some firms' relationships with government are passive and limited, consisting mainly of compliance with rules that apply equally to all firms, for example, labor and environmental laws. Other firms have extensive and close relationships with government through, for example, supplying products and services for public authorities. In such active relationships, a firm has additional rules and regulations with which to comply. These higher levels of exposure to governmental influences create opportunities for a firm's CSR to be shaped differently than that of firms with lesser or no relations with government.

Several writers (Aaronson, 2005; Fox, Ward, & Howard, 2002; Moon, 2004) have analyzed the role and influence of government in CSR. Fox et al. (2002) described government's four possible roles: (1) *mandating* (establishing minimum standards for CSR actions within a legal framework); (2) *facilitating* (enabling or incentivizing firms); (3) *partnering* (with firms in CSR-related actions); or (4) *endorsing* (providing acknowledgement or appreciation). De la Cuesta González and Martínez (2004) have noted that public procurement has been used as a tool for promoting CSR in several EU states, and Aaronson (2005) has advocated that the U.S. government use public procurement for similar purposes. McCrudden (2006) argued that the influence of public procurement law depends on several factors, including the subject matter of CSR, the level of government authority, and even the place of performance of the public contract.

Much CSR-related scholarship in public procurement relates to sustainability (see, for example, Brammer & Walker, 2007; Walker, Disistro, & McBain, 2008; Walker & Brammer, 2009; Walker & Phillips, 2009). Oldroyd, Grosvold, and Millington (2011) noted that implementation of sustainable procurement practices in the public sector depends on factors such as potential cost savings, while the enhancement of reputation is the main consideration for private firms.

To summarize, scholars have established the relevance of governments in promoting CSR, and they have noted the role of public procurement as a tool to that end. We found no research, however, on specific ways in which government actions, including public procurement-related actions, might shape or affect a firm's CSR.

Stakeholder Theory

In addition to stockholders, a firm's stakeholders includes: employees, customers, suppliers, and the community. According to stakeholder theories of CSR (see, for example, Freeman, 2004), a firm's relationship with its stakeholders is defined by trade-offs between the rights of the firm to operate in a particular realm (provided by stakeholders) with the economic and social contributions it provides in return. Stakeholders thus have rights to expect certain

CSR-related actions or behaviors from a firm. Obviously, public authorities are major stakeholders with a unique set of expectations and demands for those firms that engage in public procurement.

Firms have several ways to inform stakeholders of their CSR, and scholars have paid much attention to how firms use marketing for this means (see, for example, Bronn & Vrioni, 2001; Maignan & Ferrell, 2004). *Apropos* this paper, firms use corporate websites to publicize and promote their CSR, and the question is whether the information on these websites suggests a difference between the CSR of firms that engage in public procurement and those that do not.

U.S. Department of Defense Procurement Policy

CSR is embedded in U.S. procurement law as an extension of public policy. Table 1 gives examples of how CSR objectives are addressed in the Federal Acquisition Regulation (FAR).

Socioeconomic Justice (FAR Part 19)	Small Businesses; Historically Underutilized Businesses; Service-Disabled Veteran-Owned Small Businesses; Women-Owned Small Businesses
Labor Rights and Protections (FAR Part 22)	Safety Standards; Equal Employment Opportunity; Age Discrimination; Child Labor; Trafficking in Persons; Affirmative Action
Environmental Protection (FAR Part 23)	Sustainable Acquisition; Energy and Water Efficiency; Hazardous Materials; Recovered Materials and Biobased Products; Drug-Free Workplace; Radioactive Materials; Ozone-Depleting Substances

Table 1. DoD Procurement Regulations

Contractors for the Department of Defense (DOD) are required by contract clauses and through various representations and certifications to address all such concerns. These serve to hold contractors responsible for their actions as agents of the government.

CSR Research on Defense Firms

Hurst (2004) compared the corporate ethics, governance and social responsibility of European companies with those in the U.S. Using information that was publicly available on websites, reports, and business databases, he analyzed European and American companies in the technology, energy, healthcare, and defense industries using the following questions:

- Has the company publicized a Code of Conduct/Ethics?
- Are the company's conflict of interest guidelines publicly available to investors?
- Does the company make it clear who the designated Ethics/Compliance Officer is?
- Does the company have a whistle-blowing process implemented and is it easily accessible?
- Does the company publish a CSR or sustainability report?
- Is CSR one of the company's core corporate principles or business objectives?

European companies scored higher on the CSR indicators as nearly 50% of them had CSR embedded in their corporate strategies, compared to only 20% of U.S. companies.

This study also indicated that the defense industry paid less attention to CSR than the other industries. Hurst found that neither Lockheed Martin nor Northrop Grumman published a CSR or sustainability report, and that CSR was not a corporate principle or objective. Lockheed Martin "[met] all of the ethics requirements but failed to even mention CSR" (Hurst, 2004). However, they set the standard by publishing the most comprehensive ethics code. Similarly, Northrop Grumman also failed to mention CSR publicly, though its whistle-blowing process was the best in the study.

Halpern (2008) investigated the CSR of defense firms that manufacture command, control, communications, computer, intelligence, surveillance and reconnaissance equipment. Regarding Carroll's (1999) four domains of CSR, Halpern found that these defense firms have a greater emphasis on the economic and legal

elements of CSR than firms in general. He noted that discretionary activities of these defense firms were suppressed by FAR provisions that restrict their ability to make charitable donations that are not taken from their profits.

METHODOLOGY

This study uses publicly available information to compare the emphasis placed on CSR by the following companies:

- Defense Contractors: Top 5 defense contractors with over 70% of revenues from the U.S. government.
- CSR Companies: Top 5 CSR companies as ranked by Boston College Center for Corporate Citizenship.
- Largest Firms: Top 5 Fortune 500 companies representing different industries.

Each of the fifteen firms is assessed from public information in six CSR categories (health and safety, environment, diversity, human rights, discretionary/philanthropy, and corporate governance). The assessment combines ISM's CSR instrument (ISM, 2011) with Hurst's (2004) framework for comparing CSR between European and U.S. firms. Additional assessment factors were derived by the authors (shown as "authors" below) from the best practices of the top CSR companies.

Framework

Table 2 shows the four factors in each of six CSR categories to be examined for each company, as well as the source (i.e., ISM, Hurst, or Authors) for each of the factors.

Category	Factors	Source
Health and Safety	Publishes safety program/policies.	ISM
	Trains employees and suppliers	ISM
	Publishes safety goals.	Authors
	Has processes to measure/document safety performance.	ISM
Environment	Has environmental goals in place.	Authors
	Recycles and minimizes waste and environmental impact.	ISM

	Reports environmental efforts.	ISM
	Pursues discretionary initiatives.	ISM
Diversity	Has programs/processes to promote.	ISM
	Trains employees and suppliers.	ISM
	Promotes equal access to employment opportunities.	ISM
	Pursues discretionary diversity initiatives.	Authors
Human Rights	Has program and/or processes to promote.	ISM
	Trains employees on human rights.	ISM
	Promotes enforcement to suppliers.	ISM
	Has initiatives to promote human rights.	Authors
Discretionary	Activities demonstrate commitment to the community.	ISM
	Encourages employees to volunteer	ISM
	Efforts include charitable donations	ISM
	Partners with others for community projects.	Authors
Corporate	Publishes a Code of Conduct or Standards of Business.	ISM/Hurst
	Core principles/values reflect CSR.	Hurst
	Publishes CSR/Sustainability Report.	Hurst
	Reports CSR efforts to higher authority or governance	Authors

Table 2. CSR Factors

Selection of Firms

The selected defense contractors (Table 3) had the highest percentage of public revenue, with annual revenues exceeding \$10 billion. All five of the companies earned over 70% of revenue from the government. (In Tables 3, 4, and 5 below, revenues are as reported from 2010 annual reports, and percentages of revenue from the U.S. government were found at www.usaspending.gov).

Defense Contractors	Industry	Revenue	Government %
Lockheed Martin	Aerospace and Defense	\$45.8B	76%
Northrop Grumman	Aerospace and Defense	\$34.7B	92%
General Dynamics	Aerospace and Defense	\$32.4B	72%
Raytheon Company	Aerospace and Defense	\$25.1B	88%
L-3 Communications	Aerospace and Defense	\$15.7B	83%

Table 3. Defense Contractors

The second group (Table 4) includes five Fortune 500 companies, which earn the majority of revenues from commercial sources. These companies represent a diverse industry-base and earn less than 20% of their revenues from the U.S. government.

Fortune 500 Companies	Industry	Revenues	Government %
Walmart	General Merchandizer	\$421B	0.00024%
Exxon	Petroleum Refining	\$354B	2.06%
GM	Motor Vehicles	\$135B	2.07%
Bank of America	Commercial Banking	\$134B	0.13%
Hewlett Packard	Computers	\$126B	18.89%

Table 4. Largest Companies

The final group (Table 5) represents the companies ranked as the top five CSR companies according to Boston College's Center for Corporate Citizenship. These companies set the standard for CSR in large companies whose revenue exceeds \$10 billion.

Top 5 CSR Companies	Industry	Revenue	Government %
Johnson & Johnson	Pharmaceuticals	\$61.6B	1.64%
Walt Disney	Entertainment	\$38.1B	0%
Kraft Foods	Food Consumer Products	\$49.2B	6.12%
Microsoft	Computer Software	\$69.9B	1.01%
PepsiCo	Food Consumer Products	\$57.8B	3.22%

Table 5. Top 5 CSR Companies

Rating Scheme

Each company was assessed in order to judge the extent to which it addressed the six CSR categories. Each of the factors in the six categories elicits a yes or no response, which is given the corresponding value of “1” and “0,” respectively, based on a review of information on the firm’s website. The sum of the factor values in each category will thus range from 0 to 4, with the corresponding adjectival ratings for CSR emphasis in each category: 0=No, 1=Low, 2=Moderate, 3=High, 4=Very High.

PRESENTATION OF RESULTS

Tables 6, 7, and 8 show the assessments for each group of firms.

CSR Category	Lockheed Martin	Northrop Grumman	General Dynamics	Raytheon	L-3
Health and Safety	4	3	4	4	1
Environment	4	4	4	4	1
Diversity	4	4	3	4	2
Human Rights	3	3	0	2	0
Discretionary	4	4	4	4	2
Corporate	2	4	3	3	1

Table 6. Ratings for Defense Companies

CSR Category	WalMart	Exxon	Bank of America	GM	Hewlett Packard
Health and Safety	4	4	4	3	4
Environment	4	4	4	4	4
Diversity	4	4	4	4	4
Human Rights	3	4	2	0	4
Discretionary	4	4	4	4	4
Corporate	3	4	4	2	4

Table 7. Ratings for Largest Companies

CSR Category	Johnson & Johnson	Walt Disney	Kraft Foods	Microsoft	PepsiCo
Health and Safety	4	4	4	3	4
Environment	4	4	4	4	4
Diversity	4	4	4	4	4
Human Rights	4	4	4	4	4
Discretionary	4	4	4	4	4
Corporate	4	4	4	4	4

Table 8. Ratings for Top CSR Companies

The data indicate that the emphasis on CSR by defense contractors is different than that of other companies, to the extent that emphasis is evident on corporate websites. Figure 1 shows that defense contractors show less emphasis on CSR than the companies that receive the majority of their revenues from commercial sources.

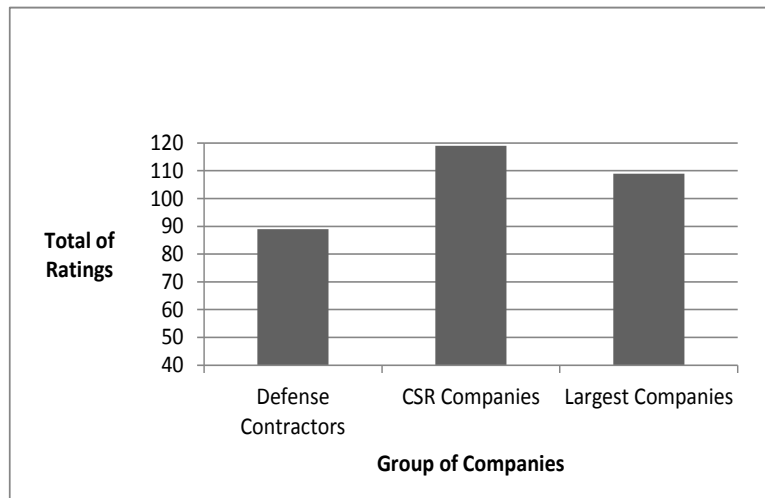


Figure 1. Total Ratings by Group of Companies for All CSR Categories.

Of the 120 factors assessed (5 companies*6 CSR categories*4 factors), defense contractors had a ratings total of 89 (74.17%), CSR companies had a ratings total of 119 (99.17%), and the largest companies had a ratings total of 109 (90.83%).

Figure 2 shows that L-3 Communications scored significantly lower than other defense contractors, heavily influencing the group totals.

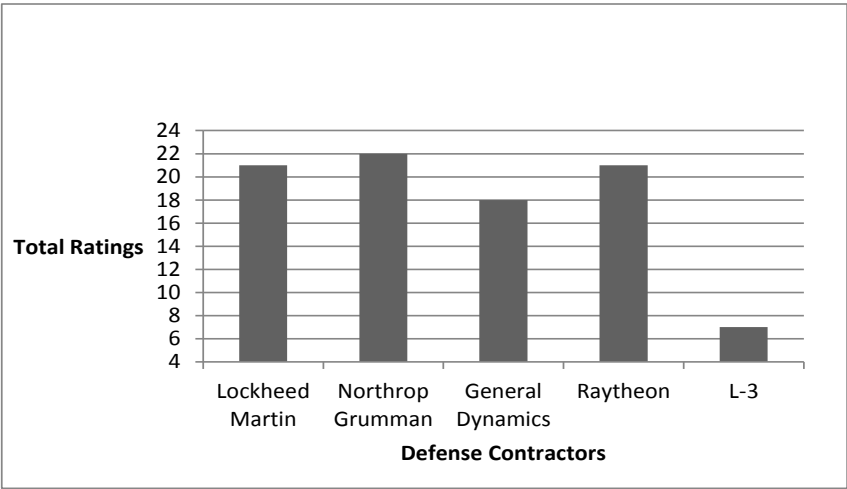


Figure 2. Total Number of Questions Addressed By Each Defense Contractor

Figure 3 gives a comparison of the ratings of each group of companies in the six CSR categories.

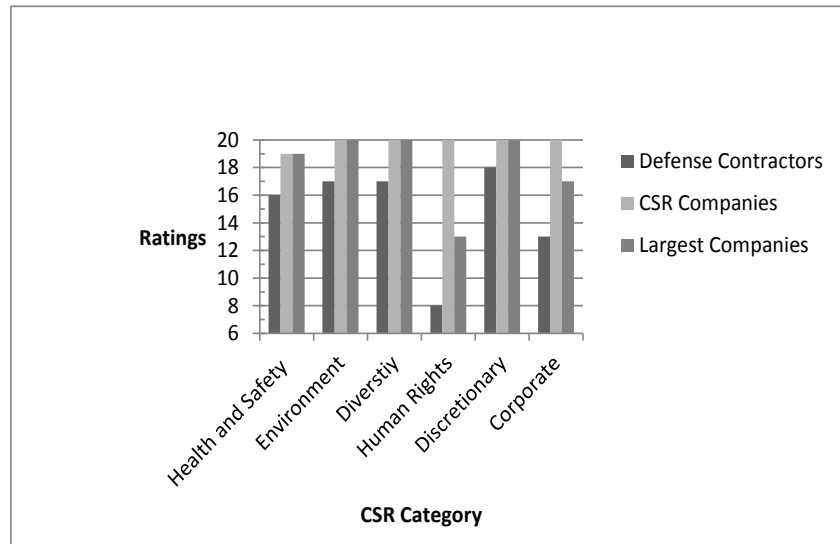


Figure 3. Ratings by Group for Each CSR Category

Figure 4 consolidates the data for all of the companies to illustrate these least emphasized categories. All three groups of companies were rated as having a “High” and “Very High” emphasis on the discretionary, diversity, environmental, and health and safety categories.

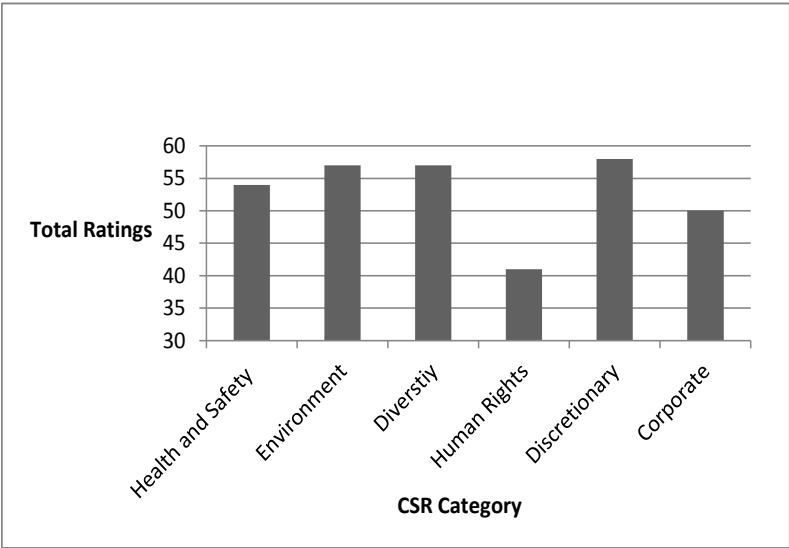


Figure 4. Ratings for all Companies in Each CSR Category

DISCUSSION

Differences between defense contractors and other firms in levels of CSR emphasis may be explained in several ways, most of which are related to the unique features of the very different “markets” in which they operate.

Stakeholder theory calls attention to the particular demands that influential stakeholders place on a firm regarding CSR. For private firms, the most influential stakeholders are those that contribute most to profitability, such as individual consumers, corporate customers, and supply chain partners. To the extent that a strong CSR emphasis makes a firm more attractive to these stakeholders, CSR enhances profitability. Thus, private firms have strong incentives to promote their CSR strengths as a way of advertising, especially through means such as corporate websites that can reach many

potential stakeholders.

These incentives are not so strong for defense firms that operate under a monopsony (i.e., one buyer, many sellers). The main stakeholders to which defense contractors must promote themselves are federal agencies that buy their products. Clearly, corporate websites are not important as means for promoting CSR in such cases. Indeed, whether or not a particular firm is selected for a defense contract will depend *almost exclusively* on information that the firm provides *only* in its proposal. Thus, a more appropriate way to judge a defense firm's CSR would be to include an evaluation of the CSR-related representations and certifications which it is required to make in its proposals.

The focus on the government as their main source of revenue forces defense contractors to have different views of CSR than those held by private firms. Defense firms operate under and comply with the provisions of the FAR, which creates a complex set of intricate and arcane rules that are of no concern to private firms. Defense firms have a compliance orientation towards CSR, because the risks of noncompliance (e.g., being disqualified from a contracting action; unfavorable media attention) are so severe. Essentially, a firm wishing to sell to the government derives profit by winning contracts, which means playing by the rules. Public procurement results in a defense firm's profit motives becoming inextricably linked to its adherence to norms and governmental expectations. Risk-averse attitudes and approaches thus prevail among defense firms, while private firms have incentives to "push the envelope" on discretionary CSR-related actions and initiatives.

The FAR also reinforces an orientation towards ethics as an essential CSR domain for defense contractors. The FAR intends explicitly to promote ethical practices in federal contracting; it contains ninety-five references to either "ethics" or "ethical." Many of its requirements (e.g., process transparency) contribute to an environment that helps curb wrongdoing and promotes ethical behaviors. Defense firms that are focused on complying with the FAR will naturally perceive such compliance as inherently constituting ethical behavior in the CSR realm.

Many aspects of federal contracting under the FAR contain features that purely commercial firms may consider discretionary. Policy provisions concerning small and disadvantaged businesses are a good example. While a commercial firm might decide, as a discretionary “goodwill” action, to sponsor minority scholarships, the FAR promotes such actions as matters of public policy. As noted above, socioeconomic policies are promoted through, for example, the Historically Underutilized Business Zone (HUBZone) program, small businesses owned and controlled by service-disabled veterans, and women-owned small business. Thus, the FAR includes something of an implicit CSR framework. Operating within that framework, defense firms naturally see compliance with the FAR as accomplishing at least some of their discretionary CSR.

CONCLUSION

This study suggests that differences exist in discretionary CSR orientations of defense contractors and private firms, and further, that these differences may be due to the extent to which these firms engage in public procurement. In particular, the myriad rules of the public procurement marketplace appear to divert a defense firm’s attention away from discretionary CSR orientations (e.g., human rights, philanthropy) and toward legal compliance and ethical behavior. Further, unlike private firms, defense contractors have little profit incentive to advertise their CSR broadly, because one main stakeholder – the government – influences their profitability.

NOTES - Web sites used in this study:

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